

**CENTERVILLE MUNICIPAL WATERWORKS
CENTERVILLE, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENT AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2011

**Peak & Co., LLP
Certified Public Accountants
1370 NW 114th St., Suite 205
Clive, IA 50325**

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CENTERVILLE MUNICIPAL WATERWORKS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Greg Gordon	Trustee	August, 2011
Nancy Bennett	Trustee	August, 2012
Carl Cisler	Trustee	August, 2012
C.J. Hash	Trustee	August, 2013
Bill Milani	Trustee	August, 2014

Centerville Municipal Waterworks

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
1370 NW 114TH ST., SUITE 205
CLIVE, IA 50325

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Centerville Municipal Waterworks:

We have audited the accompanying financial statement of the Centerville Municipal Waterworks, Centerville, Iowa, as of and for the year ended June 30, 2011. This financial statement is the responsibility of Waterworks' officials. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Centerville Municipal Waterworks is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Centerville that is attributable to the transactions of the Waterworks.

In our opinion, the aforementioned financial statement presents fairly, in all material respects, the cash basis financial position of the Centerville Municipal Waterworks as of June 30, 2011, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 8, 2012 on our consideration of the Centerville Municipal Waterworks internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 9 and pages 19 through 20 are not required parts of the financial statement, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statement taken as a whole. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statement and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statement taken as a whole.

Peak & Co., LLP
Certified Public Accountants

June 8, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Centerville Municipal Waterworks provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the Waterworks financial statements, which follows.

2011 FINANCIAL HIGHLIGHTS

Receipts of the Waterworks totaled \$2,634,712 which represents an increase 5% from fiscal 2010 to fiscal 2011.

Disbursements totaled \$2,563,377 which represents an increase of 1% from fiscal 2010 to fiscal 2011.

The Waterworks total cash basis net assets increased 12%, or approximately \$71,335, from June 30, 2010 to June 30, 2011.

The significant change in operation occurred as a result of merging the Waterworks with the City. A reduction in office staff reduced administrative expenses.

USING THIS ANNUAL REPORT

The Centerville Municipal Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Centerville Municipal Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Centerville Municipal Waterworks' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Centerville Municipal Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Centerville Municipal Waterworks financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Centerville Municipal Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statement.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Waterworks' budget for the year.

Other Supplementary Information provides detailed information about the individual Enterprise Fund accounts. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2011.

FINANCIAL ANALYSIS OF THE CENTERVILLE MUNICIPAL WATERWORKS

Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets

The purpose of the statement is to present the receipts received by the Centerville Municipal Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statement are able to determine the Centerville Municipal Waterworks' financial position by analyzing the increase and decrease in cash basis net assets.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, taps and miscellaneous fees. Receipts also include the sale of capital assets and scrap. The City of Centerville pays the Centerville Municipal Waterworks contract fees to include sewer and storm water charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, sales tax computation. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2011 and June 30, 2010 is presented below:

Changes in Cash Basis Net Assets		
	<u>Years ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Operating Receipts:		
Charges for service	\$ 1,052,665	\$ 1,061,583
Miscellaneous	96,093	77,221
Total receipts	<u>1,148,758</u>	<u>1,138,804</u>
Operating Disbursements:		
Business type activities	<u>787,187</u>	<u>957,389</u>
Total disbursements	<u>787,187</u>	<u>957,389</u>
Excess of operating receipts over operating disbursements	<u>361,571</u>	<u>181,415</u>
Non-operating receipts (disbursements):		
Interest on investments	4,712	6,692
Proceeds from SRF loan	-	56,134
Proceeds from CDBG grant	-	124,956
Sewer and storm water fee collected for City	1,475,890	1,190,175
Sewer and storm water fees remitted to City	(1,521,036)	(1,145,638)
Sale of capital assets	5,352	-
Debt service	(39,033)	(303,573)
Capital outlay	<u>(216,121)</u>	<u>(129,506)</u>
Net non-operating receipts (disbursements)	<u>(290,236)</u>	<u>(200,760)</u>
Change in cash basis net assets	71,335	(19,345)
Cash basis net assets beginning of year, as restated	<u>589,478</u>	<u>608,823</u>
Cash basis net assets end of year	<u>\$ 660,813</u>	<u>\$ 589,478</u>

In fiscal year 2011, receipts increased \$117,951, or 5%, from 2010. In fiscal 2011, disbursements increased \$27,271, or 1%.

The larger portions of the Waterworks' net assets (92%) are unrestricted net assets available for use in routine operations of the distribution and administrative areas of the Waterworks and for capital improvements to the distribution areas. The remaining net assets (8%) are restricted for the customer water deposits.

BUDGETARY HIGHLIGHTS

The Centerville Municipal Waterworks prepares a budget on the cash basis of accounting and submits it to the City of Centerville. During the year, one budget amendment increased budgeted disbursements by \$40,000.

DEBT ADMINISTRATION

At June 30, 2011, the Waterworks had \$592,000 in revenue notes and loans outstanding, compared to \$618,000 last year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Centerville Municipal Waterworks appointed officials considered many factors when setting the fiscal year 2012 budget, including water main replacements, upkeep of current mains and fees that will be charged. No adjustment in our water rates will be made in fiscal year 2012.

CONTACTING THE CENTERVILLE MUNICIPAL WATERWORKS FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks finances and to show the Waterworks accountability for the money it receives. If you have questions about this report or need additional information, contact Kim Crego, Commissioner of Municipal Services, PO Box 578, Centerville, IA 52544.

Financial Statement

CENTERVILLE MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH
BASIS NET ASSETS

Year ended June 30, 2011

	Enterprise Fund Water
Operating receipts:	
Charges for service	\$ 1,052,665
Miscellaneous	<u>96,093</u>
Total operating receipts	<u>1,148,758</u>
Operating disbursements:	
Business type activities	<u>787,187</u>
Total operating disbursements	<u>787,187</u>
Excess of operating receipts over operating disbursements	<u>361,571</u>
Non-operating receipts (disbursements):	
Interest on investments	4,712
Sewer and storm water fees collected for City	1,475,890
Sewer and storm water fees remitted to City	(1,521,036)
Sale of capital assets	5,352
Debt service	(39,033)
Capital outlay	<u>(216,121)</u>
Net non-operating receipts (disbursements)	<u>(290,236)</u>
Change in cash basis net assets	71,335
Cash basis net assets beginning of year, as restated	<u>589,478</u>
Cash basis net assets end of year	<u><u>\$ 660,813</u></u>
Cash Basis Net Assets	
Restricted for:	
Customer water deposits	51,720
Unrestricted	<u>609,093</u>
Total cash basis net assets	<u><u>\$ 660,813</u></u>

See notes to financial statement.

CENTERVILLE MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Centerville Municipal Waterworks is a component unit of the City of Centerville, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a five-member board of trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Centerville Municipal Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Restricted Assets and Net Assets

Funds set aside for customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Cash and Pooled Investments

Because the Waterworks did not have a depository agreement in effect during the year ended June 30, 2011, it is unclear if the Waterworks deposits at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Note 2. Cash and Pooled Investments (continued)

During the fiscal year, the Waterworks had a NOW bank account and certificates of deposits at two local banks.

In addition, at June 30, 2011, the Waterworks had funds in cash, an American Express certificate of deposit and in an American Funds money market account at Edward Jones investment company. At June 30, 2011, the cost of these investments materially agreed to the carrying amount of these investments. Based on the requirements of Chapter 12B of the Code of Iowa, it does not appear that the funds invested in Edward Jones are allowable investments. It appears that these investments are unrated.

The Waterworks has no investment policy, even though an investment policy is required pursuant to Chapter 12B of the Code of Iowa.

Note 3. Water Revenue Bonds Payable

Annual debt service requirements to maturity for the water revenue bonds payable are as follows:

Year Ending June 30,	Water Revenue Bonds		Total	
	Principal	Interest	Principal	Interest
2012	\$ 26,000	\$ 11,250	\$ 26,000	\$ 11,250
2013	27,000	10,470	27,000	10,470
2014	28,000	9,660	28,000	9,660
2015	29,000	8,820	29,000	8,820
2016	30,000	7,950	30,000	7,950
2017	31,000	7,250	31,000	7,250
2018	32,000	6,120	32,000	6,120
2019	32,000	5,160	32,000	5,160
2020	33,000	4,200	33,000	4,200
2021	34,000	3,210	34,000	3,210
2022	36,000	2,190	36,000	2,190
2023	37,000	1,110	37,000	1,110
	<u>\$ 375,000</u>	<u>\$ 77,390</u>	<u>\$ 375,000</u>	<u>\$ 77,390</u>

Water Revenue Bonds

On August 13, 2008, the Waterworks entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$450,000 of water revenue bonds with interest at 3.00% per annum. The agreement also requires the Waterworks to annually pay .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. The \$450,000 in funds were drawn down by the Waterworks from the Trustee upon request to reimburse the Waterworks for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld in fiscal year 2009 by the bank from the first proceeds of the water revenue bonds drawn by the Waterworks.

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$450,000 in water revenue bonds issued in August 2008. The bonds are payable solely from water customer net receipts and are payable through 2023. Annual principal and interest payments on the bonds are expected to require less than 11 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$452,390. For the current year, principal and interest paid and total customer net receipts were \$38,030 and \$361,571 respectively.

Note 3. Water Revenue Bonds Payable (continued)

The resolutions providing for the issuance of the water revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a water revenue bond and interest sinking account. Monies in this account are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) The Waterworks shall keep proper books and accounts adapted to the Water System showing the complete and correct entry of all transactions relating thereto.

The Waterworks has not made the required transfers to the sinking account. The sinking account cash balance at June 30, 2011 was (\$210,822). In addition, the debt principal and interest was paid by the Waterworks from the operating account, and not the sinking account, as required by the bond resolutions. Also, the Waterworks accounting records did not show the complete and correct entry of all transactions.

Note 4. Rathbun Regional Water Association Loan

As part of the water purchase contract described in Note 10, Rathbun Regional Water Association agreed to loan the Centerville Municipal Waterworks \$217,000. The loan will be forgivable provided that Centerville Municipal Waterworks meets the minimum water purchase quantities for the first 10 years of the water purchase contract.

Note 5. Pension and Retirement Benefits

The Waterworks contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the Waterworks is required to contribute 6.95% of covered salary. Contribution requirements are established by State statute. The Waterworks' contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$11,261, \$15,776 and \$16,946, respectively, equal to the required contributions for each year.

Note 6. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation, compensatory and personal leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation, compensatory and personal leave termination payments payable to employees at June 30, 2011 is \$9,978. The liability has been computed based on rates of pay in effect at June 30, 2011.

Note 7. Risk Management

The Waterworks is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Waterworks' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Waterworks' annual contributions to the Pool for the year ended June 30, 2011 were \$10,385.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

Note 7. Risk Management (continued)

The Waterworks also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000 each accident, \$1,000,000 memo limit and \$1,000,000 each employee limit. The Waterworks assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Other Postemployment Benefits (OPEB)

Plan Description – The City of Centerville operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. The Waterworks participates in the City of Centerville's health benefit plan, and reimburses the City of Centerville for their share of the expenses. There are 37 active and 6 retired members in the plan, 2 of which are Waterworks employees. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a self-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The Waterworks finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums for the Waterworks and plan members are \$555.72 for single coverage and \$1,227.29 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the Waterworks contributed \$33,050, and plan members eligible for benefits contributed \$2,945 to the plan.

Note 9. Lease Agreements

The Waterworks and a private business have entered into a lease for office space to be occupied by the private business in the old Waterworks building. This lease is for \$275 per month, and appears to be leased on a month-to-month basis. The Waterworks received \$3,300 from this lease in fiscal year 2011.

The Waterworks is leasing antenna space on the water tower to Farmers Cellular Telephone Company, Inc. (tenant). This lease was entered into in February of 2009. The Waterworks received \$10,185 from this lease in fiscal year 2011. Unless the tenant decides to terminate the lease, the Waterworks has to continue to lease the antenna space to the tenant until 2029. After twenty years from the date of the lease, the Waterworks can then terminate this lease with the tenant by giving one year written notice of the date of such termination. As long as this lease is in effect, each year the base rent for this lease will be increased by 3% over the previous year's base rent.

Note 10. Water Purchase Contract

Centerville Municipal Waterworks agreed to a forty year water purchase agreement with Rathbun Regional Water Association in July 2001. As part of this agreement, from July 2006 to the end of the forty year agreement, the Centerville Municipal Waterworks agreed to purchase a minimum of seven and one-half million gallons of water per month from Rathbun Regional Water Association. Centerville Municipal Waterworks currently pays Rathbun Regional Water Association \$2.50 per thousand gallons for the first five million gallons of water purchased per month, \$1.30 per thousand gallons for the next ten million gallons of water purchased per month, and \$1.05 per thousand gallons in excess of fifteen million gallons of water purchased per month. Based on the minimum water purchase requirements of seven and one-half million gallons of water per month and based on current water rates, the Waterworks will be obligated to pay Rathbun Regional Water Association a minimum of \$189,000 per year for purchased water through the 2041 year.

Currently, the Waterworks buys all of its water for resale from the Rathbun Regional Water Association, and in fiscal year 2011, approximately 206,150,000 gallons of water were purchased by the Waterworks, at a total cost of \$333,411. The Waterworks does not have the capability to produce its own water for resale. It appears the only source of water available to the Waterworks is from Rathbun Regional Water Association.

Note 11. Contingency/Commitments

The Waterworks participates in Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability of the Waterworks. The Waterworks management believes such revisions or disallowances, if any, will not be material to the Waterworks.

The Waterworks has a contract for professional services with the City of Centerville. According to the contract, the City will provide Commissioner services and Administration services to the Waterworks at a cost of \$4,750 per month to the Waterworks. This contract is perpetual, but either party can terminate this contract by giving the other party the notice of termination at least 180 days prior to the desired date of termination. The total amounts paid, in relation to this agreement in fiscal year 2011, was \$28,500.

Note 12. Prior Period Adjustment

The beginning cash basis net assets have been restated to correct errors in reporting the cash balance. The restatement decreased the beginning cash balances.

The effects of these adjustments are as follows on the statement of cash receipts, disbursements and changes in cash basis net assets:

	<u>Enterprise Fund</u>
Balance June 30, 2010, as previously reported	\$ 616,321
Adjustment to reflect the correct cash balance	<u>(26,843)</u>
Balance July 1, 2010, as restated	<u>\$ 589,478</u>

The effects of these adjustments are as follows on the combining schedule of cash receipts, disbursements and changes in cash basis net assets enterprise fund accounts:

	<u>Waterworks</u>
Balance June 30, 2010, as previously reported	\$ 240,376
Adjustment to reflect the correct cash balance	<u>(26,843)</u>
Balance July 1, 2010, as restated	<u>\$ 213,533</u>

Note 13. Subsequent Events

The Waterworks has evaluated subsequent events through June 8, 2012, which is the date that the financial statement was available to be issued.

Required Supplementary Information

CENTERVILLE MUNICIPAL WATERWORKS
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS)

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2011

	Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
Receipts:						
Use of money and property	\$ 4,712	\$ -	\$ 4,712	\$ 4,000	\$ 4,000	\$ 712
Charges for service	2,528,555	1,475,890	1,052,665	1,114,200	1,114,200	(61,535)
Miscellaneous	101,445	-	101,445	85,200	85,200	16,245
Total receipts	2,634,712	1,475,890	1,158,822	1,203,400	1,203,400	(44,578)
Disbursements:						
Business type activities	2,563,377	1,521,036	1,042,341	1,203,400	1,243,400	201,059
Change in cash basis net assets	71,335	(45,146)	116,481	-	(40,000)	156,481
Cash basis net assets beginning of year, as restated	589,478	36,088	553,390	-	-	553,390
Cash basis net assets end of year	\$ 660,813	\$ (9,058)	\$ 669,871	\$ -	\$ (40,000)	\$ 709,871

See accompanying independent auditor's report.

CENTERVILLE MUNICIPAL WATERWORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2011

The Centerville Municipal Waterworks prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted disbursements by \$40,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements did not exceed the amount budgeted.

Other Supplementary Information

CENTERVILLE MUNICIPAL WATERWORKS

Schedule 1

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BASIS NET ASSETS
ENTERPRISE FUND ACCOUNTS

Year ended June 30, 2011

	Waterworks	Customer Deposit	Water Revenue Bond Sinking	Water Revenue Reserve	Water Revenue Improvement	Total
OPERATING RECEIPTS:						
Charges for service -						
Sale of water	\$ 1,028,655	\$ -	\$ -	\$ -	\$ -	\$ 1,028,655
Billing fees from City	7,800	-	-	-	-	7,800
Installations and collections	2,725	-	-	-	-	2,725
Rental	13,485	-	-	-	-	13,485
	<u>1,052,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,052,665</u>
Miscellaneous -						
Sales tax collected	57,213	-	-	-	-	57,213
Refunds and reimbursements	10,234	-	-	-	-	10,234
Customer deposits	-	24,626	-	-	-	24,626
Miscellaneous	4,020	-	-	-	-	4,020
	<u>71,467</u>	<u>24,626</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,093</u>
Total operating receipts	<u>1,124,132</u>	<u>24,626</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,148,758</u>
OPERATING DISBURSEMENTS:						
Business type activities -						
Salaries	132,004	-	-	-	-	132,004
Trustee fees	2,485	-	-	-	-	2,485
Payroll taxes	21,735	-	-	-	-	21,735
Employee insurance	33,266	-	-	-	-	33,266
Unemployment	1,223	-	-	-	-	1,223
Repair buildings	3,303	-	-	-	-	3,303
Repair reservoir	3,080	-	-	-	-	3,080
Vehicle costs	10,962	-	-	-	-	10,962
Machinery repair	330	-	-	-	-	330
Repair tanks	11,800	-	-	-	-	11,800
Utilities	11,854	-	-	-	-	11,854
Trash service and garbage	533	-	-	-	-	533
Telephone	4,274	-	-	-	-	4,274
Purchased water	333,411	-	-	-	-	333,411
Water testing	2,051	-	-	-	-	2,051
Miscellaneous	1,050	-	-	-	-	1,050
Management fee to City	33,500	-	-	-	-	33,500
Audit fees	9,339	-	-	-	-	9,339
Advertising	80	-	-	-	-	80
Cleaning	1,136	-	-	-	-	1,136
Insurance	10,385	-	-	-	-	10,385
Legal fees	4,298	-	-	-	-	4,298
Publication	597	-	-	-	-	597
Sales tax	65,759	-	-	-	-	65,759
Property tax	330	-	-	-	-	330
Independent contractor - accounting	39,835	-	-	-	-	39,835
Safety equipment	331	-	-	-	-	331
Customer deposits	-	19,610	-	-	-	19,610
Tools and supplies	6,707	-	-	-	-	6,707
Office supplies	9,446	-	-	-	-	9,446
Postage	11,231	-	-	-	-	11,231
Operating supplies and materials	842	-	-	-	-	842
Equipment	400	-	-	-	-	400
Total operating disbursements	<u>767,577</u>	<u>19,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>787,187</u>

CENTERVILLE MUNICIPAL WATERWORKS

Schedule 1

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BASIS NET ASSETS
ENTERPRISE FUND ACCOUNTS

Year ended June 30, 2011

	Waterworks	Customer Deposit	Water Revenue Bond Sinking	Water Revenue Reserve	Water Revenue Improvement	Total
Excess of operating receipts over operating disbursements	\$ 356,555	\$ 5,016	\$ -	\$ -	\$ -	\$ 361,571
NON-OPERATING RECEIPTS (DISBURSEMENTS):						
Interest on investments	3,625	-	-	1,087	-	4,712
Sewer and storm water fees collected for City	1,475,890	-	-	-	-	1,475,890
Sewer and storm water fees remitted to City	(1,521,036)	-	-	-	-	(1,521,036)
Sale of capital assets	5,352	-	-	-	-	5,352
Debt service -						
Principal redeemed	(26,000)	-	-	-	-	(26,000)
Interest paid	(12,030)	-	-	-	-	(12,030)
Service fees	(1,003)	-	-	-	-	(1,003)
Capital outlay	(216,121)	-	-	-	-	(216,121)
Total non-operating receipts (disbursements)	(291,323)	-	-	1,087	-	(290,236)
Excess of receipts over disbursements	65,232	5,016	-	1,087	-	71,335
Operating transfers in (out)	158,029	-	(248,395)	140,366	(50,000)	-
Change in cash basis net assets	223,261	5,016	(248,395)	141,453	(50,000)	71,335
Cash basis net assets beginning of year, as restated	213,533	46,704	37,573	55,224	236,444	589,478
Cash basis net assets end of year	\$ 436,794	\$ 51,720	\$ (210,822)	\$ 196,677	\$ 186,444	\$ 660,813

See accompanying independent auditor's report.

CENTERVILLE MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2011

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Bonds	08/13/08 *	3.00%	<u>\$ 450,000</u>
Rathbun Regional Water Association	07/19/01	-	<u>217,000</u>

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
08/13/08	\$ 401,000	\$ -	\$ 26,000	\$ 375,000	\$ 12,030	\$ -
07/19/01	\$ 217,000	\$ -	\$ -	\$ 217,000	\$ -	\$ -

* - The agreement also requires the Waterworks to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

CENTERVILLE MUNICIPAL WATERWORKS

Schedule 3

BOND AND NOTE MATURITIES

June 30, 2011

Year ending June 30,	Water Revenue Bonds Issued August 13, 2008		
	Interest Rates	Amount	Total
2012	3.00%	\$ 26,000	\$ 26,000
2013	3.00%	27,000	27,000
2014	3.00%	28,000	28,000
2015	3.00%	29,000	29,000
2016	3.00%	30,000	30,000
2017	3.00%	31,000	31,000
2018	3.00%	32,000	32,000
2019	3.00%	32,000	32,000
2020	3.00%	33,000	33,000
2021	3.00%	34,000	34,000
2022	3.00%	36,000	36,000
2023	3.00%	37,000	37,000
		<u>\$ 375,000</u>	<u>\$ 375,000</u>

See accompanying independent auditor's report.

PEAK & CO., LLP
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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of a Financial Statement Performed in Accordance
with Government Auditing Standards

To the Board of Trustees of the
Centerville Municipal Waterworks:

We have audited the accompanying financial statement of the Centerville Municipal Waterworks, Centerville, Iowa, as of and for the year ended June 30, 2011, and have issued our report thereon dated June 8, 2012. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Centerville Municipal Waterworks internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Centerville Municipal Waterworks internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Centerville Municipal Waterworks internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be a significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Centerville Municipal Waterworks financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-11, I-B-11, I-C-11, I-D-11, I-E-11, I-F-11 and I-I-11 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-G-11 and I-H-11 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Centerville Municipal Waterworks financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Centerville Municipal Waterworks responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Waterworks responses, we did not audit Centerville Municipal Waterworks responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the Centerville Municipal Waterworks and other parties to whom the Centerville Municipal Waterworks may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Centerville Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Co., LLP
Certified Public Accountants

June 8, 2012

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

- I-A-11 **Segregation of Duties** – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person. Also, bank accounts are not reconciled by an individual who does not handle or record cash. Mail is opened by accounting personnel with access to the accounting records. In addition, the duties for maintaining accounts receivable are not separate from those of processing collections and deposits.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Waterworks should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The Waterworks could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- I-B-11 **Financial Reporting** – Internal controls over financial reporting include actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The Waterworks does not have the internal resources to prepare the full-disclosure financial statements required by an other comprehensive basis of accounting for external reporting purposes. While this circumstance is not uncommon for most small governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – With a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, we recommend the Waterworks continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles. However, it is not fiscally responsible to add additional staff at this time.

Conclusion – Response accepted.

- I-C-11 **Material Adjustments** – We proposed several adjusting journal entries that were material to the Waterworks financial statements. For example, some bank interest earnings were not recorded on the accounting records. Also, we identified material amounts of receipts and disbursements recorded to incorrect accounts in the Waterworks accounting records. Adjustments were subsequently made by the Waterworks to properly report the amounts in the Waterworks financial statements. In addition, the beginning cash balance was restated to properly reflect the cash balance as of July, 1, 2010.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

Recommendation – We recommend that all balances at month and year-end be reviewed for accuracy and completeness, and implement procedures to ensure all receipts and disbursements are properly recorded in the Waterworks accounting records.

Response – We will attempt to implement this recommendation.

Conclusion – Response accepted.

- I-D-11 Bank Reconciliations – Although bank reconciliations were prepared, the bank reconciliations completed during the year ended June 30, 2011 contained material inaccuracies. Appropriate adjustments were made to the June 30, 2011 bank reconciliation in order to obtain materially accurate bank reconciliation amounts. Accurate bank reconciliations are necessary to provide assurance on the accuracy of the underlying accounting data.

In addition, it does not appear that these bank reconciliations were reviewed by management or supervisory personnel.

Recommendation – The Waterworks implement procedures to ensure accurate bank reconciliations are prepared on a monthly basis. In addition, documentation should be maintained that these bank reconciliations were reviewed and approved by management or supervisory personnel.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- I-E-11 Utility Reconciliation – Utility billings, collections, delinquencies and adjustments were not reconciled during the fiscal year. Instead, this reconciliation was performed in the fall of 2011 for the year ended June 30, 2011. In addition, some detail reports to support the amounts included on this reconciliation could not be generated at the time the Waterworks completed this reconciliation. Therefore, the Waterworks “backed” into many of the amounts as noted on this reconciliation.

Also, the listing of meter deposit amounts on hand, by customer, is not reconciled to the meter deposit cash total as recorded on the accounting system.

Recommendation – Procedures should be implemented to reconcile utility billings, collections, delinquencies and adjustments for each billing period. Detail supporting documentation should be retained to support all amounts on this reconciliation. The trustees or other independent person should review the reconciliation and monitor delinquencies.

In addition, the listing of meter deposit amounts on hand, by customer, should be reconciled to the meter deposit cash total as recorded on the accounting system. Any variances between these amounts should be resolved.

Response – We are now performing this reconciliation on a monthly basis, every month. In addition, we will reconcile the meter deposit account with the ledger on a monthly basis in the future.

Conclusion - Response accepted.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

- I-F-11 Utility Rates – Chapter 384.84 of the Code of Iowa requires that utility rates be established by resolution of the trustees. The water rate charges were apparently established by the trustees by motion and not by resolution, even though a resolution is required. However, the motion to establish the water rates was so vague that the Waterworks was unable to provide us documentation from the trustee minutes of the actual water rates that should be charged.

The Waterworks bills and collects sewer fees as an agent for the City. The sewer rates are established by ordinance by the City Council. During our analysis, we determined that the sewer rates actually billed by the Waterworks were different than the sewer rates as established by City ordinance. Waterworks personnel were unable to explain why these differences exist.

The Waterworks collects the following types of receipts - water, sewer, storm water, and sales taxes. However, there is insufficient documentation maintained by the Waterworks to determine if the monies collected by the Waterworks were properly allocated to the various receipt categories as noted above.

Chapter 388.6 of the Code of Iowa states that a utility may not provide use or service at a discriminatory rate, except to the City or its agencies. However, we noted that the Waterworks was providing free water and sewer service to some non-profits in the City. This would appear to violate Chapter 388.6 of the Code of Iowa.

It appears that some utility readings are not properly computing in the billing system. For example, the monthly utility billing amount for the largest grocery store in the City is approximately the same as the monthly utility billing amount for an average family of four. It would appear that the largest grocery store in the City would use more water than an average family of four.

Recommendation – The Waterworks should establish all water rates by resolution, as required by the Code of Iowa. The Waterworks should also ensure that the sewer rates billed agree to the sewer rates as established by City ordinance. The Waterworks should also retain documentation of the allocation of the receipts to the various receipt categories.

The Waterworks should also ensure compliance with Chapter 388.6 of the Code of Iowa in relation to not providing use or utility service at a discriminatory rate. In addition, the Waterworks should analyze the customer accounts to ensure the utility readings are properly computing in the billing system.

Response – We will establish water utility rates by resolution of the trustees. We will also analyze our sewer billing amounts to ensure we are billing the correct amounts. Documentation is now maintained showing the allocation of receipts to the various receipt categories. In relation to providing services or usage at a discriminatory rate, we will discuss this with our Attorney to determine compliance. In addition, we have also analyzed all the commercial accounts to ensure the utility readings are properly computing in the billing system.

Conclusion – Response accepted.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

- I-G-11 Ordinance – Even though the residents of the City voted for and approved the creation of a board of trustees in 1948 to manage the Waterworks, the City has no ordinance which defines the duties and responsibilities of the board of trustees.

Chapter 388.3 of the Code of Iowa states that the Council shall by resolution set the compensation of the board members. Our review noted the board members compensation is currently set by the board members themselves and not by resolution of the Council.

Recommendation – The Waterworks work with the City to establish a City ordinance which defines the duties and responsibilities of the board of trustees. In addition, to ensure compliance with Chapter 388.3 of the Code of Iowa, the board should work with the City to ensure that the compensation of the board members be established by resolution of the Council.

Response – We will work on implementing these recommendations.

Conclusion – Response accepted.

- I-H-11 Transfers – The trustees did not approve of transfers between accounts. In addition, current Waterworks personnel were unable to provide an explanation as to why the transfers made during the fiscal year were made.

Recommendation – The trustees should approve all transfers, and the trustee minutes should document the reasons why the transfers were made.

Response – Current personnel were not employed by the Waterworks when the transfers in question were made. In the future, all transfers will be documented in the trustee minutes.

Conclusion – Response accepted.

- I-I-11 Record Retention – It does not appear the Waterworks has policies and procedures in place to ensure that all documentation is obtained and/or retained by the Waterworks.

For example, the Waterworks was unable to locate one bank statement, the loan agreements, the water purchase contract, and various other documents. Copies of all of these documents had to be requested from the issuers.

Recommendation – The Waterworks implement procedures to ensure that all documentation related to Waterworks business is obtained and retained.

Response – We will implement this recommendation.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

Other Findings Related to Required Statutory Reporting:

- II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011 did not exceed the amounts budgeted.
- II-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-11 Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.
- II-D-11 Business Transactions - Business transactions between the Waterworks and Waterworks officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Greg Gordon, Board Member Employee of Farmers Bank of Northern Missouri	Investments	
C.J. Hash, Board Member Employee of Edward Jones	Investments	

The Waterworks has certificates of deposits with Farmers Bank of Northern Missouri, and has investments with Edward Jones.

As noted in II-G-11 below, the Waterworks had no depository resolution in effect during the fiscal year, has no investment policy, and that the investments in Edward Jones do not appear to be allowable investments for the Waterworks according to the requirements of the Code of Iowa.

As a result, in accordance with Chapter 362 of the Code of Iowa, the above transactions may appear to represent a conflict of interest as defined in Chapter 362 of the Code of Iowa.

Recommendation - The Waterworks consult with their Attorney on the above to determine a proper resolution of the matter.

Response - Both of the above individuals are no longer on our board. Therefore, this should not be a problem in the future.

Conclusion - Response accepted.

- II-E-11 Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

- II-F-11 Board of Trustee Minutes - Transactions were found that we believe should have been approved in the trustee minutes but were not.

Chapter 388.4 of the Code of Iowa requires that immediately following a regular or special meeting, a list of all claims allowed must be published by the Waterworks in the newspaper.

We noted that the trustees are not approving the customer deposit refunds, nor were the related disbursements being published in the newspaper. In addition, several instances were noted where claims were paid, but over a month elapsed between the date the claim was paid and the date the claim was published in the newspaper.

The gross salary paid to Waterworks employees was not published in the newspaper, as required by Chapter 388.4 of the Code of Iowa.

Recommendation – The Waterworks implement procedures to ensure compliance with Chapter 388.4 of the Code of Iowa. Specifically, the trustees should approve all claims, all claims allowed should be published in the newspaper on a timely basis, and gross salary paid to employees be published in the newspaper.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- II-G-11 Deposits and Investments - Instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the investment requirements were noted.

The Waterworks did not have a depository agreement in effect during the fiscal year, as required by Chapter 12C of the Code of Iowa.

The Waterworks did not have an investment policy in effect during the fiscal year, as required by Chapter 12B of the Code of Iowa.

In addition, the investments in Edward Jones, totaling \$56,311 at June 30, 2011, do not appear to comply with the requirements of Chapter 12B.10 of the Code of Iowa.

Recommendation – The Waterworks needs to establish a depository resolution in accordance with the Code of Iowa. In addition, the Waterworks should establish an investment policy which complies with the provisions of Chapter 12B.10 of the Code of Iowa, and ensure all investments meet those requirements.

Response – We will review this with our Attorney to ensure compliance with these requirements. In addition, we will move the money from Edward Jones to our local bank.

Conclusion – Response accepted.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

- II-H-11 Revenue Bonds and Notes – Instances of non-compliance with the revenue bond requirements for the fiscal year ended June 30, 2011 were noted.

Even though the Waterworks established a sinking account, the Waterworks did not make the required transfers to the sinking account, as required by the water revenue bond resolutions. Furthermore, the sinking account had a cash balance of (\$210,822) as of June 30, 2011, as noted on Schedule 1. In addition, the debt principal and interest is required to be paid from the sinking account; however, the Waterworks actually paid the debt principal and interest from the Waterworks operating account.

The water revenue bond resolutions require the Waterworks to keep accurate books of account. It is questionable if the Waterworks met this requirement.

Recommendation – The Waterworks should make transfers to the sinking account to ensure the balance in the sinking account is in compliance with the water revenue bond resolutions. The debt principal and interest should then be paid from the balance in the sinking account. In addition, to ensure compliance with the water revenue bond resolutions, the Waterworks should keep accurate books of account.

Response – We were unaware of these requirements until now. We will attempt to implement these recommendations in the future.

Conclusion – Response accepted.

- II-I-11 Form 1099 – The Waterworks is required to prepare IRS form 1099s for outside services of \$600 or more provided by independent contractors. The Waterworks did not prepare the required forms for calendar year 2010.

Recommendation – The Waterworks issue Form 1099s as required by IRS guidelines.

Response – This was an oversight on our part, we will issue these in the future.

Conclusion – Response accepted.

- II-J-11 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows cancelled checks to be retained in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. For one month, an image of both the front and back of each cancelled check was not obtained or retained. For the other eleven months, an image of the back of each cancelled check was not obtained.

Recommendation – The Waterworks should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We have already implemented this recommendation.

Conclusion – Response accepted.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

- II-K-11 Payroll – Trustee compensation is paid as an independent contractor. IRS regulations require that this compensation be paid through payroll, with applicable payroll taxes withheld.

In some instances, Waterworks employees inflated their gross pay when computing the IPERS contribution amounts. As a result, the Waterworks overpaid IPERS during the fiscal year.

Documentation could not be located in the trustee minutes as to the various approved employee rates of pay. As a result, we are unable to determine if the Waterworks employees were paid the correct rate of pay.

Instances were noted where employee payroll documentation such as I9's, W4's and support for payroll deductions could not be located.

Recommendation – The Waterworks contact the IRS to determine how to correct the improper employee classification, from a tax standpoint. In addition, in the future, all employees should be paid as an employee and not as an independent contractor.

The Waterworks should also contact IPERS to determine how to correct the overpayment to IPERS, including filing a claim with IPERS to request this overpayment be refunded back to the Waterworks.

In addition, the trustee minutes should document rates of employee pay, as approved by the trustees. Furthermore, all payroll documentation, such as I9's, W4's and support for payroll deductions, should be retained.

Response – We will consult with our Attorney in relation to how to proceed with the above.

Conclusion – Response accepted.

- II-L-11 Unclaimed Property – Chapter 556.11 of the Code of Iowa requires the Waterworks to report and remit obligations, including checks and water deposits outstanding for more than two years, to the State Treasurer's office annually. The Waterworks did not remit these obligations as required.

Recommendation – The outstanding checks and water deposits outstanding should be reviewed annually and items over two years old should be remitted to the State Treasurer's Office as required.

Response – We will implement this recommendation.

Conclusion – Response accepted.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

- II-M-11 Disbursements – Our review of the cleared checks noted that in some cases the checks were only signed by one individual, even though the Waterworks policy requires checks be signed by two individuals.

Voided checks were not consistently retained by the Waterworks.

One instance was noted where a check cleared the bank, even though the disbursement was not recorded on the accounting system.

Several instances were noted where not all pages of the invoices were cancelled.

At times during the year, the Waterworks was paying claims every week, in advance of the trustee meeting.

Recommendation – The Waterworks implement procedures to ensure all checks are signed by two individuals, all void checks are retained, all disbursements are recorded on the accounting system, and that all pages of the paid invoices are cancelled.

In addition, the Waterworks should implement a policy which documents under what circumstances claims can be paid prior to the trustee meeting. All other claims should be approved at the trustee meeting prior to payment.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- II-N-11 Public Improvement – The Waterworks did not publish a request for sealed bids or publish a notice of public hearing on a water main replacement project, even though this was required pursuant to Chapter 26 of the Code of Iowa. Instead, the Waterworks obtained informal quotes from two vendors for this project, and a public hearing was not held in relation to this project.

Waterworks personnel indicated that this project was an emergency event; therefore, the Waterworks believed they did not have to comply with Chapter 26 of the Code of Iowa. However, it is questionable whether the timing of the Waterworks actions is consistent with the assertion that this was an emergency event. For example, nine days elapsed between when the State of Iowa approved of the construction permit for this project, and when the trustees met to discuss and approve the plans and contractor for this project. Over this span of nine days, it would appear that the Waterworks could have implemented procedures to ensure compliance with Chapter 26 of the Code of Iowa.

Recommendation – In the future, the Waterworks should implement procedures to ensure compliance with Chapter 26 of the Code of Iowa in regards to public improvement projects.

Response – We will review this the next time we have a construction project.

Conclusion – Response accepted.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2011

- II-O-11 Miscellaneous – The Waterworks is not remitting sales taxes to the State of Iowa for the sale of material to private customers and contractors.

The Waterworks has not applied for a gas tax refund from the State of Iowa for gasoline purchased by the Waterworks.

The Waterworks needs to be more aggressive in collecting past due accounts. For example, the Waterworks could assess the cost of unpaid utility billings on the owners property taxes. In addition, the Waterworks could also turn over unpaid billings to the State of Iowa or to a collection agency for collection.

The Waterworks had used an off the shelf computer program to compute payroll. The payroll totals from this off the shelf computer program were then manually entered into the Waterworks accounting system. However, the Waterworks accounting system has a payroll module, and can compute payroll, which will integrate into the Waterworks financial accounting system. The use of an off the shelf computer program to compute payroll is extremely inefficient, increases the possibility of data entry errors, and results in extra costs to the Waterworks.

The Waterworks hired an independent contractor for six months to provide administrative oversight and accounting services for the Waterworks. For these six months, the Waterworks paid this independent contractor approximately \$40,000. Based on our review of the accounting records, it does not appear the independent contractor adequately performed the duties as required in the contract between the Waterworks and the independent contractor.

Recommendation – The Waterworks remit sales taxes to the State of Iowa as required, and apply for gas tax refunds from the State of Iowa. In addition, the Waterworks needs to be more aggressive in collecting delinquent accounts. The Waterworks should determine the most cost-effective and efficient way to compute payroll. Also, the Waterworks needs to implement procedures to ensure independent contractor contract terms are met.

Response – We will review and implement the above recommendations where possible. In regards to the off the shelf computer program and the independent contractor as documented above, we have discontinued their use.

Conclusion – Response accepted.